

## Message Text

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ACTION EB-07

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TAGS: EGEN, CI

SUBJECT: U.S. INTERESTS IN CHILEAN ECONOMIC POLICIES

REF: (A) SANTIAGO 303; (B) SANTIAGO 313; (C) SANTIAGO 366

1. SUMMARY. RECENT DIFFERENCES BETWEEN THE GOC AND USG OVER HUMAN RIGHTS MAY HAVE OBSCURED THE CLOSE COMMUNITY OF INTERESTS WHICH EXISTS BETWEEN CHILE AND THE US IN THE ECONOMIC ARENA. DRAWING ON REFS, THIS TELEGRAM EXAMINES SOME OF THE AREAS WHERE GOC POLICIES ARE REINFORCING USG POLICIES AND ATTEMPTS TO ASSESS THE IMPORTANCE OF GOC ACTIONS. END SUMMARY.

2. IN HIS SEPTEMBER 1 UNGA SPEECH SECRETARY KISSINGER ADDRESSED SEVERAL ECONOMIC ISSUES WHICH HAVE BECOME SOURCES OF CONTENTION BETWEEN DEVELOPING AND DEVELOPED COUNTRIES. IT IS WORTH NOTING THE SIMILARITY OF USG VIEWS WITH THOSE OF GOC ON SOME OF THESE ISSUES:

(A) CHILEAN TRADE POLICY IS GEARED TOWARD ASSUMPTION OF THE SAME OBLIGATIONS REGARDING LIBERAL TRADE PRACTICES AS ARE NOW  
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BORNE BY DEVELOPED COUNTRIES. THIS IS INDICATED BY GOC INTENTION

TO ESTABLISH UNIFORM, MODERATELY PROTECTIVE TARIFF STRUCTURE AND TO FOREGO THE USE OF QUANTITATIVE CONTROLS. CHILE'S COMMITMENT TO THIS POLICY IS EVIDENCED BY ITS DECISION UNILATERALLY TO LOWER ITS OWN TARIFFS, ITS ANDEAN PACT COMMITMENTS NOTWITHSTANDING (REFTEL C).

(B) THE GOC OPPOSES PRODUCER-ONLY CARTELS ORGANIZED FOR THE PRIMARY PURPOSE OF RAISING COMMODITY PRICES. IT SUPPORTS SECRETARY KISSINGER'S PROPOSAL FOR A COPPER COMMODITY AGREEMENT INCLUDING BOTH CONSUMERS AND PRODUCERS, AND ENVISAGING MODERATE INTERNATIONAL PRICES (REFTEL B).

(C) THE GOC STRONGLY FAVORS FOREIGN INVESTMENT ON A BASIS WHICH AVOIDS DISCRIMINATION BETWEEN NATIONAL AND FOREIGN INVESTORS AND WHICH ENSURES TO THE LATTER EQUITABLE TREATMENT. IT HAS MANIFESTED IN THIS AREA ITS SUPPORT OF TRADITIONAL PRINCIPLES OF INTERNATIONAL LAW LONG (IF RECENTLY NOT TOO SUCCESSFULLY) ESPOUSED BY THE USG IN INTERNATIONAL FORA, AND HAS GIVEN TANGIBLE EVIDENCE OF THIS SUPPORT THROUGH MEETING ITS PROMISED COMPENSATION PAYMENTS FOR EARLIER EXPROPRIATIONS AT A COST WHICH CONTRIBUTES TO DOMESTIC HARDSHIP, EVEN RUNNING SOME RISK OF GENERATING DOMESTIC POLITICAL UNREST. THE STRENGTH OF ITS BELIEF IN THE IMPORTANCE OF THE FREE FLOW OF CAPITAL TO WHERE IT CAN WORK MOST EFFECTLY IS FURTHER DEMONSTRATED IN ITS WILLINGNESS, IN MOMENTS OF SEVERE DIPLOMATIC ISOLATION, TO RISK CONFRONTATION WITH ITS ANDEAN PARTNERS OVER PACT DECISION 24 (REFTEL C).

(D) FINALLY, ALTHOUGH NOT DWELT ON IN THE SECRETARY'S UNGA ADDRESS, THE USG HAS LONG WORKED TOWARD AN ORDERLY WORLD IN WHICH NATIONS CAN HAVE CONFIDENCE THAT OTHER NATIONS WILL HONOR THEIR INTERNATIONAL FINANCIAL OBLIGATIONS. WE THEREFORE NOTE THE GOC'S EFFORTS TO AVOID DEFAULT ON INTERNATIONAL COMMITMENTS IN THE PAST AND ITS INTENTION, PREVIOUSLY CONFIDED TO EMBASSY AND NOW ANNOUNCED PUBLICLY, TO PRECLUDE FURTHER PARIS CLUB DIFFICULTIES BY PAYING RATHER THAN SEEKING TO RESCHEDULE 1976 DEBT OBLIGATIONS (REFTEL A). GOC IS AWARE THAT THIS DECISION MAY ENTAIL REAL DOMESTIC DIFFICULTIES.

3. THE QUESTION IS OF WHAT IMPORTANCE IS GOC SUPPORT FOR AND COMMITMENT TO THESE ISSUES TO THE REALIZATION OF U.S. ECONOMIC LIMITED OFFICIAL USE

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OBJECTIVES. IT MAY BE ARGUED THAT US DIRECT ECONOMIC INTERESTS IN CHILE ARE NOT VERY SUBSTANTIAL. THE US ECONOMY AS A WHOLE WILL BE SCARCELY MORE AFFECTED BY GOC DECISIONS WHICH LEAD TO HIGHER, MORE STABLE LEVELS OF TRADE THAN BY EARLIER POLICIES WHICH CAUSED A DIMINUTION IN BILATERAL TRADE. CHILE IS NOT AN IMPORTANT SUPPLIER OF COPPER TO THE US MARKET.

4. MOREOVER, GIVEN ITS DIPLOMATIC ISOLATION, NEITHER IS THE

GOC ESPECIALLY CAPABLE OF EXERTING A POSITIVE INFLUENCE ON OTHER DEVELOPING COUNTRIES IN THE DIRECTION OF SOME OF THE POLICIES WE ESPOUSE. THERE ARE, HOWEVER, OTHER AREAS IN WHICH CHILE CAN, IF INDIRECTLY, PLAY A ROLE USEFUL TO UNITED STATES INTERESTS.

5. CHILE'S ROLE IN A COPPER COMMODITY AGREEMENT. IN HIS SEPTEMBER 1 SPEECH AT THE UN, SECRETARY KISSINGER LAUNCHED A PROPOSAL FOR AN INTERNATIONAL COPPER COMMODITY AGREEMENT FROM WHICH WE CANNOT NOW READILY BACK AWAY, BUT FOR WHICH THE PROSPECTS ARE BY NO MEANS CLEAR. PRESUMABLY WE WANT TO AVOID A PROLONGED INTERNATIONAL HASSLE ENDING UP WITH A PROPOSAL SO OVERBALANCED IN FAVOR OF "THIRD WORLD" INTERESTS THAT WE MIGHT NOT BE ABLE TO ACCEPT IT. SUCH A RESULT WOULD AFFECT THE PROSPECTS FOR OTHER COMMODITY AGREEMENTS FOR WHICH COPPER COULD BE A BELLWETHER. IF THE CHILEANS, WHO SHARE OUR VIEWS ON THE OBJECTIVES OF SUCH AGREEMENTS, CAN HELP TO KEEP THE EVOLUTION OF A COPPER AGREEMENT ON THE RAILS, IT WOULD CERTAINLY BE TO OUR INTEREST TO ENCOURAGE THEIR COOPERATION. HOW EFFECTIVE CAN THEY BE?

6. CHILE IS TOO ISOLATED DIPLOMATICALLY EITHER TO SPONSOR THE INITIAL MEETING, OR TO PLAY A LEADERSHIP ROLE IN SUBSEQUENT NEGOTIATIONS. AT THE SAME TIME, HOWEVER, THE CHILEAN POSITION REMAINS CRUCIAL TO THE ESTABLISHMENT OF ANY OPERATIONAL AGREEMENT. CHILE HAS THE LARGEST COPPER RESERVES, THE LOWEST COST OF PRODUCTION, AND POSSIBLY THE GREATEST RESERVOIR OF TALENT AND EXPERIENCE IN MINING AND MARKETING COPPER OF ANY DEVELOPING COUNTRY. CHILE'S MODERATING INFLUENCE IN CIPEC IS ALREADY WELL ESTABLISHED. MOREOVER, THE UNITED STATES LACKS OTHER NATURAL ALLIES AMONG THE FULL CIPEC MEMBERSHIP. WE THINK, THEREFORE, THAT THE GOC CAN BE OF HELP BOTH WITHIN CIPEC AND IN DISCUSSIONS LEADING TO A PRODUCER/CONSUMER AGREEMENT, THAT THAT ITS OFFER LIMITED OFFICIAL USE

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OF COOPERATION (REFTEL B) SHOULD NOT BE TREATED LIGHTLY.

7. ANDEAN PACT. SO LONG AS IT REMAINS IN THE ORGANIZATION, THE GOC HAS SOME LEVERAGE FOR MODERATING ANDEAN PACT TRADE AND INVESTMENT POLICIES. THE GOC'S INSISTENCE ON A UNIFORM AND ONLY MODERATELY PROTECTIVE TARIFF STRUCTURE, ITS OPPOSITION TO QUANTITATIVE TRADE CONTROLS, AND ITS ADVOCACY OF EXCHANGE RATE ADJUSTMENTS FOR BOP EQUILIBRIUM PARALLEL THE USG VIEW THAT DEVELOPING COUNTRIES SHOULD BEAR A GREATER RESPONSIBILITY FOR ASSURING THE PROPER FUNCTIONING OF THE INTERNATIONAL TRADE AND PAYMENTS SYSTEMS. LIKEWISE, THE GOC IS SUPPORTING POLICIES IN ANDEAN PACT FORA WHICH WOULD LEAD TO THE ESTABLISHMENT OF CLEAR AND EQUITABLE GROUND RULES FOR THE TREATMENT OF TRANSNATIONAL ENTERPRISES, MOST OF WHICH ARE HEADQUARTERED IN THE UNITED STATES.

8. EVEN IF ITS ADVOCACY OF THESE POLICIES LEADS TO A RUPTURE WITH THE PACT, THE CHILEAN EXAMPLE WILL CONTINUE TO BE WATCHED CLOSELY IN LATIN AMERICA. CHILE IS AMONG THE FEW DEVELOPING COUNTRIES WHICH CONFORM TO AND SUPPORT THE INTERNATIONAL ECONOMIC/LEGAL NORMS WHICH WE OURSELVES ADVOCATE. OUR CONCLUSION IS THAT WE DO BENEFIT TO SOME DEGREE FROM THIS SUPPORT, AND THAT IT IS IN OUR ECONOMIC REPEAT ECONOMIC INTEREST TO RECIPROCATATE, IN THE ECONOMIC ARENA, WITH SOME APPROPRIATE SUPPORT FOR CHILE.

9. THIS RAISES THE QUESTION OF HOW WE DO THIS WITHIN THE CONSTRAINTS OF OUR NON-ECONOMIC DESIDERATE FOR CHILE, AND ESPECIALLY THE AMELIORATION OF ITS HUMAN RIGHTS PRACTICES. FROM THE SECRETARY'S MINNEAPOLIS SPEECH (JULY 15, 1975) WE CONCLUDE THAT THERE ARE LIMITS TO THE ALL-ENCOMPASSING VIGOR WITH WHICH WE SHOULD PURSUE BETTER HUMAN RIGHTS STANDARDS IN FOREIGN COUNTRIES, AND THAT OTHER FACTORS IN THE PERFORMANCE OF SUCH COUNTRIES SHOULD BE TAKEN INTO ACCOUNT. WHAT WE ARE SUGGESTING IS THAT THE GOC'S POSITION ON INTERNATIONAL ECONOMIC POLICY ISSUES IS ONE SUCH FACTOR. AS WE HAVE INDICATED, THE CHILEAN POSITION AS CURRENTLY PRESENTED BROADLY ACCORDS WITH OUR OWN IN THIS AREA. THIS SHOULD BE REMEMBERED IN DETERMINING THE EXTENT TO WHICH WE USE RESTRICTIONS ON ECONOMIC AID TO CHILE AS LEVERAGE IN THE HUMAN RIGHTS FIELD.  
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